Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers	)	**CC Docket No. 00-256**
	)	
Federal-State Joint Board on Universal Service	)	**CC Docket No. 96-45**
	)	
Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate of Return Regulation	)	**CC Docket No. 98-77**
	)	
Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers	)	**CC Docket No. 98-166**
	)	

WORLDCOM REPLY COMMENTS

WorldCom, Inc. (WorldCom) hereby submits its reply to comments on the access reform and universal service plan submitted to the Commission by the Multi-Association Group (MAG).

In evaluating the MAG plan and the Rural Task Force (RTF) recommendation, "[t]he Commission should be aware of the dangers and risks involved in continual expansion of universal service funds."[1] As several commenters discuss, the entire burden of the Commission's universal service programs falls on users of interstate

[1] Sprint Comments at 8. See also Qwest Comments at 5-6.

services, principally long distance customers.[2] Unjustified and uncontrolled increases in the size of the universal service fund would only further distort long distance prices and place additional burdens on an industry whose revenues and margins are already flat or declining.

In their current form, the MAG plan's universal service provisions are inconsistent with Section 254 and would result in a substantial and unwarranted increase in the size of the universal service fund. In particular, the proposed Rate Averaging Support (RAS) fund would violate Section 254 because it would provide support for special access services, advanced services, and other services that are not included in the Section 254(c)(1) definition of universal service. And by linking the RAS fund's size to the unduly generous revenue per line (RPL) formula, MAG has designed a fund that will almost certainly grow faster than the cost of providing supported services.

WorldCom agrees with AT&T that the Rural Task Force's High Cost Fund III (HCF III) would be superior to MAG's proposed RAS.[3] While the HCF III and RAS are both designed as a "make whole" funds, HCF III at least has the virtue of not including special access costs. Moreover, the size of the HCF III would be constrained by the ILEC's authorized rate of return, rather than being allowed to grow regardless of changes in the ILEC's costs.[4] Finally, because the HCF III would be implemented within the existing rate of return framework, the Commission could quickly eliminate implicit

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[2]Id.

[3]AT&T Comments at 2-4.

[4]AT&T Comments at 11.

support without first resolving the complex issues associated with MAG's proposed incentive regulation scheme.

Given the complex issues associated with the transition to incentive regulation, the Commission should defer the creation of an incentive regulation plan to a further proceeding. Clearly, the Commission cannot adopt MAG's incentive regulation scheme without significant modifications. First, non-ILEC commenters agree that the inflation-adjusted RPL scheme needs to be modified to include an X-factor. In arguing that the "diversity" of non-price cap ILECs precludes the selection of an X-factor, MAG ignores the fact that it has implicitly selected an X-factor of its own -- zero. There is considerably more support in the record for an X-factor of at least 3 or 4 percent than an X-factor of zero.[5]

Second, any incentive regulation scheme should be mandatory for the largest ILEC holding companies. While WorldCom recognizes that many small rural ILECs are concerned that incentive regulation may not be appropriate for their operations,[6] this concern does not justify making incentive regulation optional for ALLTEL, Century and other large holding companies with millions of access lines and billions of dollars in revenues. WorldCom agrees with AT&T that the better approach is to make incentive regulation mandatory for larger non-price cap ILECs, while giving only the smallest ILECs the option of remaining under rate of return.[7]

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[5]See, e.g., AT&T Comments at 16, Appendix A.

[6]See, e.g., Comments of the Interstate Telecom Group at 7-8.

[7]AT&T Comments at 13-14.

With respect to MAG's proposal to eliminate the caps on the High Cost Loop (HCL) fund, non-ILEC commenters agree that there is no basis for the Commission to adopt this proposal. Contrary to MAG's claim, the Commission cannot increase the size of the HCL fund in order to "provide incentives" for investment in new infrastructure that is capable of supporting broadband services.[8] To increase the size of the fund in order to support advanced services infrastructure would be inconsistent with Section 254's mandate that the universal service fund subsidize only those services included in the 254(c)(1) definition of universal service. Even if MAG's argument is given its most benign reading -- that MAG is claiming that today's level of universal service support is insufficient to support up-to-date network technology -- there is no evidence to support such a claim.[9]

MAG's proposal to eliminate controls on mergers and acquisitions would further inflate the size of the universal service fund. As WorldCom discusses in its reply comments in the RTF proceeding, repeal of Section 54.305 would result in rural carriers "placing an unreasonable reliance upon potential universal service support in deciding whether to purchase exchanges,"[10] and would lead to uncontrolled increases in the size of the universal service fund. MAG is also incorrect when it suggests that the all or nothing rule has been rendered "obsolete" by "current accounting safeguards and

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[8]MAG Comments at 27-28.

[9]See WorldCom RTF Reply Comments at 7-8.

[10]Universal Service Order at ¶ 308.

reporting requirements."[11] The current Commission accounting safeguards and reporting requirements that MAG claims would guard against cost-shifting are little changed since 1990, when the Commission found that its accounting safeguards and reporting requirements were not sufficient to guard against cost shifting.[12]

To the extent that the Commission authorizes an increase in the size of the HCL fund or allows exceptions to the Section 54.305 constraints — which it should not — the Commission should take the approach recommended by the RTF. While WorldCom believes that the RTF's HCL-related recommendations also lack a reasoned basis, they would at least place some constraints on the future growth of the HCL fund and on the support available to rural carriers that acquire exchanges.

For the reasons stated herein, the Commission should not adopt the MAG plan in its current form. The Commission's priorities should be reform of rate of return carriers' rate structure and the creation of an explicit HCF III-type fund that replaces implicit support currently in access charges. The transition to incentive regulation should be

[11] MAG Comments at 28-29.

[12] Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order, 5 FCC Rcd 6786, 6819-6820 (1990).

deferred to further proceeding. If the Commission finds that changes to the HCL fund or the mergers and acquisitions rules are warranted, it should adopt the approach recommended by the RTF.

Respectfully submitted,
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March 12, 2001

STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on March 12, 2001.

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CERTIFICATE OF SERVICE

I, Vivian I. Lee, do hereby certify that copies of the foregoing Reply Comments were sent via first class mail, postage paid to the following on this 12th of March, 2000.

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